



KEY COMPONENTS OF A FRAUD DETECTION AND PREVENTION PROGRAM

Provided
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Key Components Of a Fraud Prevention and Detection Program

I. Culture of Honesty and Ethics

- **Setting the Tone at the Top:** The tone at the top is set by agency heads and senior management. Managers and board/commission members must set the example for ethical behavior and openly communicate their expectations for ethical conduct to members of their agencies. The basis of a strong antifraud program is a culture with a strong value system founded on integrity. Additionally, preventing fraud requires a strong commitment to creating a workplace environment that promotes ethical behavior, deters wrongdoing, and encourages and facilitates all agency employees to report any known or suspected wrongdoing. Establishing the proper culture in the organization will be impossible if we do not simultaneously have a commitment to hold each other accountable for misconduct. Accountability is the cornerstone to a successful fraud, waste, abuse and corruption, (f/w/a/c) prevention program.
- **Creating a Positive Workplace Environment:** A positive workplace environment improves employee morale and loyalty. As a result, an employee is more likely to think twice before committing a fraud against the organization. Conversely, without a positive workplace environment, there are more opportunities for poor employee morale, which can affect an employee's attitude about committing fraud. Negative factors that can detract from a positive work environment include not rewarding appropriate behavior, lack of recognition for job performance, perceived inequities, autocratic management, and unreasonable expectations.
- **Hiring and Promoting Appropriate Employees:** Establishing standards for hiring and promoting the most qualified individuals with emphasis on educational background, prior work experience, past accomplishments, and evidence of integrity and ethical behavior, demonstrate agency commitment to competent and trustworthy people. Proactive hiring and promotion procedures may include conducting background investigations and thoroughly checking a candidate's education, employment history, and personal references. Nothing will destroy incentive in the workplace any quicker than nepotism and promotion based on anything other than professional performance.
- **Training:** Fraud prevention and detection training must be mandatory for all agency personnel. This training will be provided by the Office of the State Inspector General, (OIG). Individual agency training programs should emphasize the agency's code of conduct, with an emphasis on ethics, integrity and accountability throughout the organization. The employees' role and responsibility in reporting suspected or actual fraud will be included in the training provided by the OIG. New employees will receive a very brief introduction to the state's f/w/a/c prevention program during initial hire orientation. The subsequent mandatory training will delve more deeply into the individual employee's responsibility to support this vital program.

- **Notification and Confirmation:** Management needs to clearly articulate that all employees will be held accountable to comply with the agency's code of conduct. All state employees should be required to sign a statement confirming that they understand and will comply with the employer's code of conduct. An effective code of conduct is a fundamental element of the control environment in any antifraud program. It must be established, monitored and enforced by management and the internal f/w/a/c prevention office.
- **Discipline:** Agencies must develop a standardized process for responding to allegations or suspicions of fraud, waste, abuse or corruption. That response should include immediate notification of the Office of the State Inspector General, (OIG). When fraud is alleged or suspected, management must take immediate action to investigate the incident and take appropriate and consistent actions against violators. These initial actions may include a request for the OIG to investigate the allegations. All investigations and resultant corrective actions must be reported to the OIG. The OIG will review the investigation and related corrective actions. Where applicable the OIG will forward corrective actions to other agencies for their "Best Practices" consideration.

II. Antifraud Processes and Controls

- **Identifying and Measuring Fraud Risks:** The management team must assume the primary responsibility for establishing and monitoring all aspects of the agency's fraud risk-assessment. The risk assessment process, however, should provide for input from all levels of the organization. The fraud risk-assessment process is the first step in the establishment of credible preventive measures. This process is an internal assessment of where the agencies vulnerabilities and exposures to material losses exist.
- **Mitigating Fraud Risks:** Management should conduct an internal risk assessment to identify and prioritize the different types of fraud risks and apply appropriate fraud mitigation strategies. This process is an essential component of a healthy control environment and can reduce certain fraud risks. It also becomes a matter of efficient use of resources. Resources are limited and therefore must be prioritized against areas where there is the greatest probability for return on the investment.
- **Implementing and Monitoring Appropriate Internal Controls:** Most risks can be mitigated with an appropriate system of internal control. Once a fraud risk assessment has been performed, the agency must identify the ongoing processes, controls, and other monitoring procedures that offer the greatest potential for controlling the risk. It is also important to develop a list of indicators, "Red Flags" that may give cause to suspect that a higher potential for f/w/a/c may exist in any of these high potential areas.

III. Appropriate Oversight Process

- **Audit Committee, Board of Directors or Commission:** The audit committee, board of directors or commission as appropriate must systematically and periodically evaluate management's identification of fraud risks, the implementation of antifraud prevention and detection measures, and the creation of the appropriate "tone at the top". Active oversight serves as a deterrent to employees that are inclined to engage in fraud. Active oversight also helps management determine the need for improved policies and procedures. It also helps to reinforce management's commitment to creating a culture with "zero tolerance" for fraud.
- **Management:** Effective fraud prevention programs require that all levels of the organization accept and execute their appropriate responsibilities. Managers must accept the responsibility to develop, implement, maintain and improve fraud prevention measures within their area of expertise in the organization. Non-supervisory personnel will be more focused on detecting and reporting the occurrence of fraud. Training needs to be tailored to ensure that all employees are prepared to fulfill their primary roles and responsibilities in the elimination of fraud, waste, abuse and corruption.
- **Other Oversight Resources:** Internal and external auditors and certified fraud examiners can provide expertise, knowledge, experience and objective, independent input into the agency's fraud risk assessment process. They can assist in developing prevention and mitigation measures and in the resolution of allegations or suspicions of fraud.

Sources:

1. Management Anti-fraud Programs and Controls commissioned by the Fraud Task Force of the American Institute of Certified Public Accountants, AICPA's Auditing Standards Board.
2. Key Elements of Anti-fraud Programs and Controls by Price Waterhouse Coopers.
3. Fraud Prevention Checkup by the Association of Certified Fraud Examiners
4. Practitioners' Publishing Company